

Furniture Dumping FAQ

By: [Andrew Brod](#)

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Article:

Last fall a group called the American Furniture Manufacturers Committee For Legal Trade filed an antidumping petition with the U.S. government. The group alleges that wood bedroom furniture made in China is being illegally “dumped” on the U.S. market, and it has asked the government to curtail imports of such furniture by imposing punitive tariffs. The ruling on the petition could come as soon as late April. That’s right around the corner, so here’s a furniture-dumping FAQ.

1. What is dumping?

Dumping is defined to occur when foreign-made products are sold here for less than in the producing country. The conventional wisdom is that foreign producers are willing to sell their products here below cost in hopes of driving out domestic producers and then raising prices to exorbitant levels.

2. How does the antidumping petition work?

Before charges of illegal dumping could be investigated, certain qualifying conditions had to be met. In December, the U.S. Commerce Department ruled that the petitioners accounted for more than half of total domestic production of wood bedroom furniture (excluding those manufacturers that neither supported nor opposed the petition). Then in January, the U.S. International Trade Commission ruled that “there is a reasonable indication that an industry in the United States is materially injured by reason of imports from China of wooden bedroom furniture.”

Much was made of the ITC ruling in the media, but no one doubted that the domestic industry has been hurt by Chinese imports. The issue is whether the pain is being caused by illegal dumping. The ITC ruling threw the case back to Commerce, which will complete the investigation. If Commerce rules in favor of the petitioners, it will impose tariffs ranging from 158 percent to a whopping 440 percent.

3. Who is supporting the petition? Who is opposing it?

The petitioners’ coalition is made up of such manufacturer/importers as Bassett Furniture, Century Furniture, Pennsylvania House, and Vaughan-Bassett Furniture. In addition, five labor unions are supporting the petition. Hooker Furniture and Lexington Home Brands joined the coalition but have since left it. Lexington said that after studying the issue, it couldn’t be sure that illegal dumping was actually taking place. Hooker said it withdrew after seeing how divisive the petition had become in the industry. Many observers wonder if the companies were really responding to pressure from retailer groups.

The largest domestic manufacturer/importer, Furniture Brands International, is actively opposing the petition. And of course most home-furnishings retailers oppose it. Recently, a group of retailers led by such heavyweights as Rooms to Go, Crate & Barrel, and JCPenney formed the Furniture Retailers of America in order to fight the petition. The group believes that tariffs on furniture imports will hurt their customers, and as a consequence the petition will cost more jobs in the retail sector than will be saved in the manufacturing sector.

In a memo, the group denounced the antidumping petition as “nothing less than a declaration of war against U.S. furniture retailers.”

4. What are the economics of dumping?

Dumping is primarily a legal concept, not an economic one, and hence it's hard to make economic sense of it. For one thing, supporters of the antidumping petition seem to want to have it both ways. First they tell us that it's hard to compete with China due to its low labor costs (which is true!). But then they tell us that Chinese companies are selling furniture in America below cost. Well, which is it? Low prices due to cheap labor, or low prices due to dumping?

Even if we believe that foreign manufacturers are willing to sell below cost in hopes of raising prices later, there's no evidence that this strategy has ever worked. If it had, we would have seen upward pressure on domestic prices over the years as the American economy's exposure to international trade increased steadily. In fact, precisely the opposite has happened, and almost everyone credits trade for keeping inflation in check.

Finally, what some see as dumping is actually just an example of a very common practice known as "pricing to market." If two markets can be separated from each other, geographically or otherwise, there will generally be a lower price for the same product in the market in which there is more competition. This is why airlines charge lower fares to vacation travelers than to business travelers: vacation travelers have more options, and that means airlines have to compete harder for their business.

Pricing to market explains why a foreign manufacturer might charge less to consumers in other countries than to consumers in its own country. If it faces stiffer competition abroad than it does at home (which is often the case in developing economies like China's), it makes sense to quote lower prices abroad. It's not evil; it's just good business. For years the U.S. has urged China to become more like us capitalists. We got what we asked for.

5. How could the petition affect home-furnishings retailers?

If the petition succeeds, punitive tariffs would raise the price of approximately one-fourth of all wood bedroom furniture sold in the U.S. Of course the short-run effect on consumers would be negative, but the long-run effect is less clear. As an executive of a Chinese furniture company put it, "The furniture industry will just go to other countries, like Vietnam, Indonesia, or Malaysia. This is the trend of the global marketplace." The antidumping petitioners might as well try to outlaw gravity.